USTA
UNITED STATES
TELECOM
ASSOCIATION

1401 H Street NW   Tel (202) 326-7300

Suite 600   Fax (202) 326-7333

Washington DC   www.usta.org

20005-2164

April 2, 2001   EX PARTE OR LATE FILED

RECEIVED

APR 2 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room TW-A325
Washington, D.C. 20554

ORIGINAL

Re: *Ex Parte* Presentation
CC Docket No. 00-199

Dear Ms. Salas:

On April 2, 2001, the undersigned and Mary Henze and Don Barbour of BellSouth, Joanne Barron of Verizon, Al Seyles of SBC and Bill Johnston and Peter Copeland of Qwest, representing the United States Telecom Association (USTA) met with Carol Mattey, Katherine Schroeder, Andrew Mulitz, Jared Carlson, Robert Loube and Katherine King of the Common Carrier Bureau regarding the above-referenced docket. The attached document was distributed and discussed. In accordance with Section 1.1206(a)(1) of the Commission's rules, an original and a copy of this notice are being filed in the Office of the Secretary. Please include a copy of the letter in the above-referenced proceeding. If there are any questions regarding this submission, please contact the undersigned.

Respectfully submitted,

Linda L. Kent
Associate General Counsel

Attachment
cc: Carol Mattey
      Katherine Schroeder
      Andrew Mulitz
      Jared Carlson
      Robert Loube
      Katherine King

No. of Copies rec'd 0+1
List A B C D E

Accounting Simplification and the Nonrural High Cost Model

USTA Exparte

April 2, 2001

- Some Accounting Data Used as Starting Point in Certain Calculations - <u>BUT</u>
  - Aggregated
  - Adjusted
  - Starting Point Need Not be Class A
- Alternatives Exist
  - Class B
  - Extrapolation
  - Inflation Adjustments
  - Public Data Request

- Class A Accounting Data is Starting Point in Only Certain Calculations
  - General Support Investment
  - Expense Ratios
- Over 80% of Investment Calculated using <u>Non-Accounting</u> Data
- Starting Point Could be Other Than Class A
  - USF 10th report and order Par 356 - "Scrutinizing company-specific data to identify such anomalies and to make the appropriate adjustments to the company-proposed input values would be exceedingly time consuming and complicated given the number of inputs to the model…by using averages, high and low values will cancel each other out."
  - Nationwide Averages are generally used (Not Study Area or Individual Company Results)

- **Input Details Aggregated and Adjusted**
  - Worksheet details combined to create model Input
    - Examples:
      - Multiple Class B Expense Accounts (6510, 6530, 6610, 6620, 6700) Combined into a Single Model Input for Common Support Services Expense.
      - Details aggregated to create Per Line Expense.
  - Data was modified for model needs:
    - Examples:
      - USF 10th report and order Par 346: Adjust Expenses for Current to Book Ratios (5 companies' data were used)
      - USF 10th report and order Par 400: Reduce Network Operations (Acct. 6530) by 2.6% and Executive, Planning, General, and Administrative (Acct. 6700) by 20%.
      - USF 10th report and order Par 407: Attribute 94% of Marketing Expenses to Other Services.
      - Reduce Building Investment for Miscellaneous Expense Calculation by 50% (see: SM Tab '96 Actuals' Cell H121)

- **Update Frequency**
  - Currently, Updates to Model use Line Counts, not new Accounting Data
  - Updating with New Accounting Data would be a Significant Undertaking

- **Alternatives to Updating with Class A**
  - Use Class B
    - Examples:
      - Class A Circuit Equipment is nearly 99% of both Class B expense (6230) and Class B investment (2230).
      - Class A Digital Electronic Switching is nearly 90% of Class B expense (6210) and nearly 93% of Class B investment (2210).

– Extrapolate

- Example:
  - Network Expense is available from Class B account (6110). General Support Expense is available from Class B account (6120). Investment can be extrapolated applying the current ratio between Network Support and General Support to Class B Land and Support Investment (2110).

√ Calculate Model Relationships

  - Obtain model breakdown of 2110 between the amount used for Network Support and the amount used for General Support
  - (Network Asset Accounts Used)/2110 = Network % of 2110
  - (General Support Asset Accounts Used)/2110 = General Support % of 2110

√ Use Model Relationships to Derive Update Year Account Dollars

  - Apply Network % to the Update Year Account 2110 Dollars to obtain portion of 2110 Investment applicable to Network Expense
  - Apply General Support % to the Update Year Account 2110 Dollars to obtain portion of 2110 Investment applicable to General Support Expense

√ Same Method Can be used for Any Class A Account Dollar

  - Class A Account/Class B Account = Class A %
  - Apply Class A% to the Update Year Class B Account

– Apply Inflation Factor

6

- CONCLUSION
  - Accounting Data used in Current Model is Significantly Adjusted
  - Continued Need for Accounting Data Depends on Need to Update Model
  - Even if Decision is Made to Update Model, Good Alternatives to Class A Exist